

Studying the Relation between Earnings Conservatism and Market Value and Book Value Ratio Based on Basu and Shivakumar Accounting Measures

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ABSTRACT

This research mainly aims to study the relation between earnings conservatism and book value and market value ratio. The correlation type of research is applied in this study. For the purpose, typical 155 incorporations approved by the Securities and bonds Stock Center of Tehran within a 7-year span from 2002-2008 have been investigated. To this end, two measures of Basu and Shivakumar are used for measuring earnings conservatism. In accordance with calculations at hand and with the usage of multi-variant regression through Basu measure with the results obtained and hypothesis test, earnings conservatism and ratio of market value and book value make no sense, nor does this make a difference as the results show through Shivakumar measure.

KEYWORDS: Earnings Conservatism, Book Value-Market Value Ratio, Good News and Bad News

1. INTRODUCTION

Any conscious decision made is supported by the information obtained about the decision-making. The information not reflecting facts will put negative effects on the decisions adopted by the users. Therefore, in order to maintain the rights of the users, authorities are required to help diminish improperly made decisions through monitoring all information providers and exerting control mechanisms associated with the issue.

Financial information is an important component of modern human community. In modern world, users of financial information of the institutions have grown than the past as the single owner businesses grew within a wide spectrum to become large incorporations and multi-national and international companies. Based on their situations, each of the users makes decisions by obtaining compact information from the companies. A major portion of this information is provided through accounting system. Intra-organizational users will be supplied with financial statements. The users include a large group of investors, financiers, fiscal analysts, banks, credit institutions, insurance companies, government and etc.

Every one of these institutions calls for specific information as regards to their variety of requirements, all of which can be impossibly met by the providers of financial statements. Hence, when the statements are prepared, requirements of the investors are more favored because the investors are deemed important in respect of fame and their direct influence over decisions and policies of the company holding their investment. It is to presume that a major part of needs of other users is satisfied by having requirements of investors secured (Technical Committee of Accounting Organization, 2005).

In world of today, expanded and facilitated communications on one side, and need to large investment for more earnings on the other side, made the businesses take actions to absorb their required capital from within the community in order to stand in compliance with the conditions. The investors and financiers will be persuaded to meet their requirements when they are cognizant of their situations with the support of financial statements. Under such circumstances, problems of representation and asymmetrical information come in grips with users of financial statements, particularly the investors and financiers. Senior managers in charge of preparing financial statements are more conscious due to their knowledge of the company's financial status; as a result, they are motivated than the investors and financiers as they aim to absorb the required capital. Managers of the businesses are often optimist and when they are asked of the situation of the businesses, they say in response that the businesses are at best in status. In case the managers are at their free will, the optimism might result in assets and business earnings. The managers usually try to show a favorable image of the business. Under such conditions, principles and procedures of accounting backed by authorities that have established accounting standards apply the concept of conservatism for the purposes of modulating the optimism of managers, protecting the rights of the beneficiaries and fair presenting of financial statements. Thus, conservatism as one of the limiting principles of accounting has lived for years to stand by the accountants to apply it (Watz, 2003).

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2. Statement of Problem

Conservative procedures are considered as affecting factors on the financial activities and decision making. This argument is based on the reasoning that the chosen procedures by management will impress their performance. According to the concept of conservatism, accounting should on the one hand, report the lowest possible value for the assets and revenues and on the other hand the most possible value for the debts and expenses. Besides, it should identify the costs in the earliest possible time and revenues in the latest possible time and take them into account. Thus, the net assets is less than the current price rate and leads to a choice the least possible amount between available funds. Therefore, interpretation and explanation of financial reports information based on conservative practices would be also difficult by the most informed users. Interest as a final result of the accounting process and the main source of information which is considered and emphasized by accounting information users may be measured affected by accounting management selected procedures.

Hawkins believes that business units using uniform accounting and conservative procedures can make high-quality interest, while knows the changes in accounting principles and estimates and not employing a conservative approach as reductive of interest quality [4].

Conservatism in financial reporting results from some economic reasons in the form of four factors which are (1) contractual element (2) Legal proceedings (3) taxes (4) Accounting rules and regulations.

This research studies and compares different models in explaining the expected conservative by investors as well as the relationship between the ratio of market value to clerical value and conservatism of companies that are listed in stock exchange.

This research assumes that the interest conservatism is the tendency to recognize the bad news about earnings than the good news which is primarily more significant in portfolio of firms with lower ratios of market value toward clerical value and ultimately compares the relationship between interest conservatism and ratio of market value toward clerical value according to Basu method and the relationship between interest conservatism and ratio of market value toward clerical value according to Shivakumar method.

Assuming that the this year equity returns efficiently keeps good and bad news about companies expected future cash flows, this will lead to the assumption that the deviation coefficient in a regression of interest on revenue for the firms with negative returns is more than the firms with positive returns. (A negative return is companies' bad news and the positive return is firms' good news)

3. Importance and necessity of research

Of the most important concepts in evaluating and analyzing financial statements, is the concept of conservatism. Therefore, understanding the factors that influence on conservatism greatly contributes investor in order to choose the correct management of assets with more conservatism and not submitting unrealistic financial statements. This study investigates the relationship between factors affecting the conservatism of companies, including the ration of market value toward clerical value of stocks.

Because of plurality in the number of users and diversity in their awareness levels of financial terms, it is not possible to provide conditions to present not processed documents and information resources. Hence, the role of accounting as a converter and producer of useful information applicable for these stakeholders appears to be essential. Due to the lack of direct and without intermediaries access of all users of information sources to adopt economic decisions, due and optimized, this information that are provided through financial reports, should have some features to protect the rights of users.

Conservatism is one of the financial reporting features which in the form of a limitative principle in the framework of accounting principles and concepts performs an important role in limiting the optimistic behavior of managers as the information providers on the one hand and on the other hand applying an estimate of minimum of investment incomes by investors and creditors in the position of the most important users.

Considering the present literature and research background which have been done with a focus on conservatism, confirms the important role of this accounting promise, in different fields such as rectifying the issues raised from representation, making ineffective problems due to of information asymmetry between the informed and uninformed users, obtaining the rights of major stakeholder, positive impact on reducing borrowing costs and capital costs and increase financial leverages, the role of deterrence against the occurrence of financial scandals as well as its undeniable role in the leading company issue.... However, there are some criticisms on conservatism and policy makers need to consider all the positive and negative of conservatism and cost-benefits aspects. Such criticism is that providing unrealistic of an asset value under a conservative approach will result that at the time using or selling it, the earning is declared more its actual amount. Also conservatism is in conflict with important qualitative features, such as the honest expression, objectivity and comparability (including procedure consistency).

4. Research objectives

Despite the fact that in recent years much researches have been done on conservatism issue around the world and this limiting accounting principle has been studied from different perspectives and aspects, but however, despite the high potential of the topic for scientific researches, in our country a serious effort has not been taken in this regard and a gap among scientific researches in accounting academic and professional forums is palpable. The study has tried, with the focus on conservatism issue, to open a new attendance for other researches in this area.

The purpose of this study is to determine, whether interest conservatism in portfolios that have less ratio of market value toward clerical value, is more or vice versa interest conservative, in portfolios that have more ratio of market value toward clerical value, is more.

The results of this study demonstrates to the users of financial statements the relationship between interest conservatism and the ration of market value toward clerical value and specify that to what extent conservatism is desirable, whether using conservative accounting will increase the ratio of market value toward clerical value or in contrast will decrease the ratio of market value toward clerical value? The results can provide useful information for financial planners and analysts active in the capital markets to forecast company profit.

Accordingly, the most important concept in evaluating and analyzing financial statements, is the concept of conservatism and by contributing these two factors (interest conservative and the ratio of market value to stocks clerical value) in investment decisions, can efficiently help the investors, analysts, shareholders, contractors, securities evaluators, stock brokers, financial and credit institutions and other sectors related to capital market in order to beneficial investment.

5. Research hypotheses

1. Interest Conservatism is more in portfolios that have minor ratio of market value toward clerical value.
2. There is interest conservatism in all portfolios.
3. There is interest conservatism in all tested periods.

6. Research background

6.1. Foreign Researches

Basu [9] in estimation of the conservative indicators examined the relationship between earnings and stock returns may through regression. He found out that in companies which the stock return is negative, stock returns are correlated more with earnings, rather the companies that their stock return is positive. He also realized that during the time that the judicial proceedings have increased in America, the conservatism is also increased.

Giolly and Heine [12] showed through an investigation that the profitability has declined in America during the last four decades, but this decrease has not resulted in reduction of cash flows. Also, the distribution of income has been very sporadic. The results of their research submit that the recognition of bad news administers sooner than good news, and the degree of conservatism of financial reporting has increased in America.

Beaver and Ryan [10] examined the relationship between conservatism and depreciation expense, research and development, advertising costs and reservation of supply value reduction, under Laifo method. They found out that the depreciation expense with descending method; research and development costs and costs of advertising have reverse and negative impact on conservatism. But the index of reservation of supply value reduction, under Laifo method has positive effect.

Watts and colleagues [20] realized that in the period before standardization, there has been conservatism and in the period of ruling the Financial Accounting Standards Board of America its rate has been increased.

The results of Penman and Zhang study [16] show that conservative accounting procedures accelerate the rate of capital costs. This can reduce profits and create hidden reserves. Accordingly, the interest quality decreases due to conservatism.

Ahmad [8] by launching an investigation concluded that accounting conservatism prevents managers to invest in projects with negative returns. Also, there is a direct relationship between the percentage of shares owned by board members and conservatism.

Lubo [14] in review of whether the growth of business unit is a component of conservatism in financial reporting using a modified model based on Basu model concluded that the amount of conservatism in business units with low growth is more than businesses that have high growth.

Mozaffarkhan [15] examined the measurement of conservatism components as quantitative criteria. He found out those businesses that have more long-term investments and provide non-transparent information, have more conservatism. In addition, increase of accounting conservatism causes inequality of information and less confidence on the business unit.

Zhang [18] suggests a new theory about the economic demand for accounting conservatism that emphasized on the prominent role of accounting conservatism through inequality of information in debt market. He with conducting this study provided a model for the debt market, which showed low-risk businesses, use high levels of conservatism, and vice versa those businesses that have high risk are less conservative.

6.2. National Researches

Bani Mahd[1] provides a model to measure accounting conservatism in firms accepted in Tehran Stock Exchange and obtained this result that, conservatism due to reduction of returns in assets and cash return of assets (ratio of operating cash flow to Total assets), as well as increasing long-term debt, reduces and with growth and operations of corporations, will increase.

Sadidi [4] in a research about accounting conservatism impact on interest quality and stock returns found out that there is a positive relationship between accounting conservatism and interest quality, there is a significant and inverse relationship between saving tax and accounting conservatism which is trivial, and between accounting conservatism and stock returns, as well as between conservatism and company dimension there is no significant relationship.

Reza Zadeh [3] in a study to determine the relationship between information asymmetry between investors and the amount of conservatism in financial reporting concluded that there is a positive and significant relationship between information asymmetry between investors and the level of conservatism applied in financial statements.

7. RESEARCH METHOD

7.1. How to measure conservatism

Interest Conservatism measurement is predicated of sampling and reverse regression of interest on efficiency in portfolio of companies. The measurement method is Basu approach.

In regression equation of $X_{it} = \beta_{ot} + \beta_{1t}R_{1t} + \varepsilon_{it}$, the variable x_{it} is company's interest for t fiscal year, which is balanced through the equity market value at the beginning of fiscal year, i.e. the end of fiscal year $t-1$. The R_{1t} variable shows the rate of stock market returns for 12 months of i company which ends four months after the next fiscal and ε_{it} is assumed random interfering. β_{1t} regression coefficient is defined as a measure of timeliness by which the interests of reflect annual returns on a portfolio of companies that their fiscal years ends during year t .

Within a specified companies' portfolio, $(\beta_{1t})^{GN}$ and $(\beta_{1t})^{BN}$ is estimated for subsidiary portfolio for companies with good and bad news in the t year. Interest conservatism measurement for a determined portfolio is $C_t^P = \beta_1^{BN(P)} - \beta_1^{GN(P)}$, i.e. the amount of high interest sensitivity difference for firms' bad news versus good news in portfolio p during fiscal year t . Measurement of the ratio of market value to clerical value at the beginning of the year is P_{t-1}/B_{t-1} , where P_{t-1} (B_{t-1}) shows market value (clerical value) equity at end of fiscal year $t-1$.

In order to measure conservatism Ball & Shivakumar models (2006-2005) also used:

$$Acc_{it} = \alpha_0 + \alpha_1 DCFO_{it} + \alpha_2 CFO_{it} + \alpha_3 CFO_{it} * DCFO_{it}$$

Acc_{it} : operating income for company i minus to operating cash flows in year t which is balanced by the total assets in year $t-1$.

$DCFO_{it}$: If the operating cash flows for the company i in year t is negative, it will be one, otherwise it is zero.

CFO_{it} : the operating cash flows for companies in the year t divided by total assets in year $t-1$.

α_3 : interest conservatism

Ball and Shivakumar predicted a positive α_3 coefficient for interest conservatism. The more α_3 exceeds, interest conservatism increases.

7.2. Data gathering method

In order to gather information the resources and magazines in libraries and resources available at local and international magazines website are used. Needed information and raw data are collected by software and direct access to financial statements of companies which are on the compact discs (CD) issued by Tehran Stock Exchange Organization and companies' related websites.

7.3. Data analysis method

For data analysis, the regression deviation coefficient and spss software are used. The regression deviation coefficient shows relationship between interest conservatism and the ratio of market value to clerical value. Statistical Society is regular stock of companies accepted in Tehran Stock Exchange from 1381 (2002) to 1387 (2008). Statistical sampling is divided into two groups. The first group, the regular stock with positive returns (good news) and the second group, the regular stock with negative returns (bad news). To perform statistical test the Pearson correlation coefficient is used. The companies with P/B ratio of less than one, are equally divided within the two first portfolio and companies with P/B ratios of more than one, are equally divided within the remaining portfolio (3 to 5). $P/B = 1$ can be a critical level that stimulates the performance of conservatism. Portfolio one includes firms with the lowest ratios of P/B and portfolio five includes companies with the highest ratios of P/B. To determine the impact of exact observations the median is used i.e. the highest and lowest percentages of stock interest omits from the ratio of market value to clerical value of obtained observations. The observations with negative clerical value of stakeholder equity at beginning of fiscal year will also be deleted.

Based on Basu approach, in regression equation $X_{it} = \beta_{ot} + \beta_{1t}R_{1t} + \varepsilon_{it}$, the variable x_{it} shows company profit for the fiscal year t , which is balanced through the stakeholders' equity market value at the beginning of financial year i.e. the end of financial year $t-1$. R_{1t} variable shows the rate of regular stock market returns of i company for 12 months that ends four months after next fiscal year and ε_{it} is assumed random interfering. β_1 good news β_1 bad news respectively indicate to the estimation of stock returns coefficient in the sub-samples of good news and bad news in P/B portfolio. Measuring interest conservatism is $C_t^P = \beta_1^{BN(P)} - \beta_1^{GN(P)}$, i.e. the difference between the deviation coefficient for firms with good news and bad news in a particular portfolio. Deviation coefficient of β_{1t} is interpreted as a measure of timeliness.

According to Ball & Shivakumar method:

In regression equation $Acc_{it} = \alpha_0 + \alpha_1 DCFO_{it} + \alpha_2 CFO_{it} + \alpha_3 CFO_{it} * DCFO_{it}$, variable Acc_{it} represents operational income for the company i minus operational cash flows in year t that is balanced by the total assets in year $t-1$. Variable $DCFO_{it}$, if the operational cash flows for company i in year t is negatives, it will be one and otherwise it is zero. Variable CFO_{it} represents operational cash

flows for companies in the year t divided by total assets in year $t-1$. α_3 represents interest conservatism. Ball and Shivakumar predicted a positive α_3 coefficient for interest conservatism. The more α_3 exceeds, interest conservatism increases.

Table 1: descriptive statistic

Full Sample

Variable	Mean	Standard Deviation	First Quartile	Median	Third Quartile	Min	Max
<i>R</i>	0.232	0.821	-0.128	0.022	0.349	-1.24	7.16
<i>E</i>	0.183	0.752	0.027	0.121	0.214	-5.204	9.61
<i>P/B</i>	6.883	108.50	0	1.525	3.74	0	50.33
<i>Accit</i>	0.116	0.2007	0.009	0.091	0.202	-1.26	1.39
<i>Cfoit</i>	0.115	0.2007	0.009	0.091	0.201	-1.26	1.39

Good News

Variable	Mean	Standard Deviation	First Quartile	Median	Third Quartile	Min	Max
<i>R</i>	0.617	0.953	0.127	0.314	0.638	0.001	7.163
<i>E</i>	0.292	0.716	0.08	0.163	0.273	-3.5	6.68
<i>P/B</i>	10.06	1.48	0	1.677	4.09	0	50.33
<i>Accit</i>	0.148	0.202	0.028	0.122	0.23	-0.734	1.394
<i>Cfoit</i>	0.148	0.202	0.028	0.122	0.23	-0.734	1.394

Bad News

Variable	Mean	Standard Deviation	First Quartile	Median	Third Quartile	Min	Max
<i>R</i>	-0.262	0.206	-0.401	-0.226	-0.085	-1.24	-0.0003
<i>E</i>	0.137	0.773	0.024	0.09	0.169	-2.589	9.609
<i>P/B</i>	3.995	8.179	0	1.94	4.27	0	110
<i>Accit</i>	0.098	0.186	0.012	0.086	0.195	-1.26	0.713
<i>Cfoit</i>	0.098	0.186	0.012	0.086	0.195	-1.26	0.713

Table 2: The relationship between interests and returns in each year, according to Basu method (Method 1)

Year	Good News (GN)					Bad New (BN)			$\beta_1^{BN} - \beta_1^{GN}$
	Number of observations	β_0	β_1	Adjusted R^2	Number of observations	β_0	β_1	Adjusted R^2	
1381	93	0.09	0.183	0.063	52	0.13	0.12	0.001	0.056
1382	96	0.132	0.03	0.01	53	0.106	0.291	0.005	0.261
1383	86	0.120	-0.037	-0.008	55	0.055	0.124	0.004	0.162
1384	63	0.184	-0.045	0.028	77	0.118	0.251	0.022	0.296
1385	71	0.553	0.534	0.025	50	0.582	-0.08	-0.021	-0.614
1386	81	0.974	-0.25	-0.003	31	0.34	0.555	0.284	0.805
1387	60	0.171	-0.011	-0.017	65	0.052	-0.03	-0.015	-0.02

As it is represented, in the years 1381 (2002), 1382 (2003), 1383 (2004), 1384 (2005) and 1386 (2007) interest conservatism exists, but in years 1385 (2006) and 1387 (2008) interest conservatism does exist. The highest amount of interest conservatism is related to 1386 (2007) and the lowest interest conservatism is related to 1385 (2006).

Table 3: The relationship between interests and returns in each year, according to Ball and Shivakumar (Method 2)

Year	Number of observations	α_0	α_1	α_2	α_3
1381	145	-0.011	0.011	1	0.048
1382	149	0	0	1	0
1383	141	0.173	-0.17	1	0.49
1384	143	0.25	0.78	1	0.11
1385	121	0.164	-0.16	1	-0.256
1386	122	-0.36	0.377	1	0.689
1387	125	0.25	-0.25	1	0.32

As it can be seen, in the years 1381 (2002), 1383 (2004), 1384 (2005), 1386 (2007) and 1387 (2008) interest conservatism exist, but in the years 1382 (2003) and 1385 (2006) interest conservatism does not exist. Highest amount of interest conservatism is related to 1386 (2007) and the lowest interest conservatism is related to 1385 (2006).

Table 4: The relationship between interests and returns in each year, according to both methods (methods 1 and 2)

Year	$\beta_1^{BN} - \beta_1^{GN}$	α_3
1381	0.056	0.048
1382	0.261	0
1383	0.162	0.49
1384	0.296	0.11
1385	-0.614	-0.256
1386	0.805	0.689
1387	-0.02	0.32

As it can be seen in Basu method in the years 1381 (2002), 1382 (2003), 1383 (2004), 1384 (2005) and 1386 (2007) there is interest conservatism, but in the years 1385 (2006) and 1387 (2008) interest conservatism does not exist. But in Ball and Shivakumar method, in the years 1381 (2002), 1383 (2004), 1384 (2005), 1386 (2007) and 1387 (2008) interest conservatism exist but 1382 (2003) and 1385 (2006) interest conservatism does not exist. In the both methods, the highest amount of interest conservatism is related to the year 1386 (2007) and the lowest interest conservatism is related to 1385 (2006).

Table 5: the relationship between interests and returns in each portfolio according to Basu method (Method 1)

	P/B	Good News (GN)			Bad News (BN)			$c^p = \beta_1^{BN(p)} - \beta_1^{GN(p)}$	$c^p - c^{p+1}$
		β_0	β_1	Adj. R^2	β_0	β_1	Adj. R^2		
Mean of Annual regressions (t-value)	V (high)	0.222	-0.034	-0.012	0.072	-0.065	-0.028	-0.031	
	IV	0.370	-0.102	-0.002	0.304	0.432	0.000	0.534	0.503
	III	0.255	0.025	-0.003	0.195	0.248	0.004	0.223	0.726
	II	0.345	0.067	-0.007	0.193	0.211	-0.023	0.144	0.87
	I (low)	0.261	0.108	0.000	0.276	0.491	0.001	0.383	1.253
	$\beta_1^{P/B(I)} - \beta_1^{P/B(V)}$		0.142			0.556		0.414	

As it can be seen in portfolio 1, 2, 3 and 4, there is interest conservatism but in portfolio 5, there is no interest conservatism (portfolio 5 has the highest P/B ratio). It also can be seen that there is no significant relationship between the interest conservatism and P/B ratio. The highest interest conservatism is related to the portfolio 4 and the lowest interest conservatism is related to portfolio 5.

Table 6: The relationship between interests and returns in each portfolio according to Ball and Shivakumar (Method 2)

	P/BPortfolio	α_0	α_1	α_2	α_3
Mean of Annual regressions (t-value)	V(high)	0	0	1	0
	IV	-0.002	0.0902	1	0.192
	III	0.233	-0.233	1	0.022
	II	0.037	-0.037	1	0.144
	I(low)	0.189	-0.164	1	0.079

As it can be seen, in portfolio 1, 2, 3 and 4, there is interest conservatism but in portfolio 5, there is no interest conservatism (portfolio 5 has the highest P/B ratio). It also can be seen that there is no significant relationship between the interest conservatism and P/B ratio. The highest interest conservatism is related to the portfolio 4 and the lowest interest conservatism is related to portfolio 5.

Table 7: The relationship between interest and returns in each portfolio according to both methods (methods 1 and 2)

P/BPortfolio	Basu(1)	Shivakumar(2)
	$\beta_1^{BN(p)} - \beta_1^{GN(p)}$	α_3
V(high)	-0.031	0
IV	0.534	0.192
III	0.223	0.022
II	0.144	0.144
I	0.383	0.079

As it can be seen, in both methods, in portfolio 1, 2, 3 and 4, there is interest conservatism but in portfolio 5, there is no interest conservatism. Besides, in both methods there is no relationship between the interest conservatism and P/B ratio. In both methods the highest interest conservatism is related to the portfolio 4 and the lowest interest conservatism is related to portfolio 5.

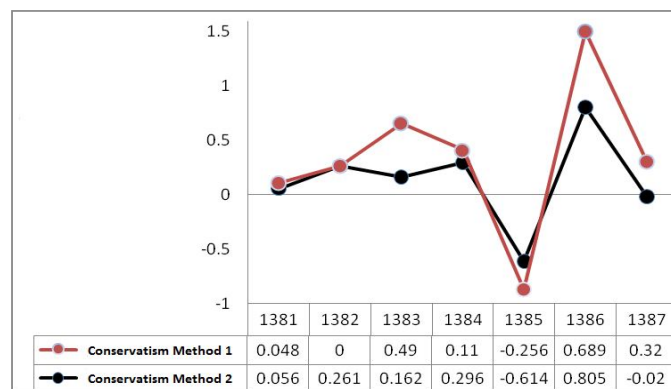


Chart 1: Increase and decrease of interest conservatism per year

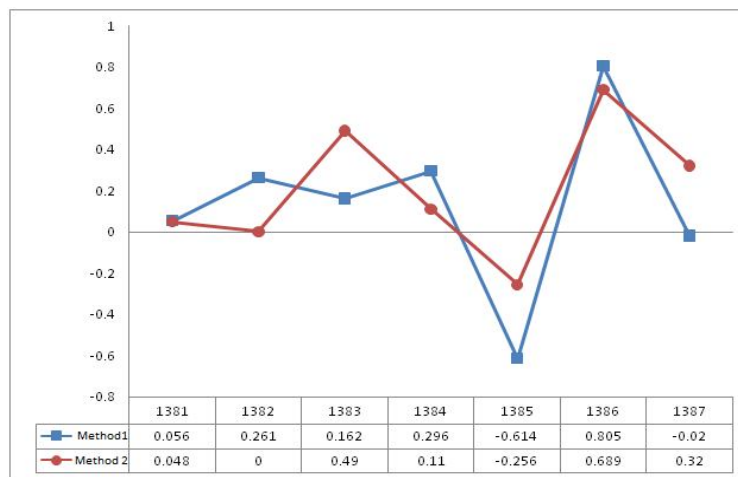


Chart 2: Increase and decrease of interest conservatism per portfolio

8. Conclusions about the assumptions

Hypothesis 1: Interest Conservatism is more in portfolios that have minor ratio of market value toward clerical value.

Hypothesis 2: There is interest conservatism in all portfolios.

Hypothesis 3: There is interest conservatism in all tested periods.

A) According to implemented calculations in Chapter Four (Basu method), there is no relationship between interest conservatism and the ratio of market value to clerical value. Also, in all tested portfolio and all periods there is no interest conservatism. Therefore, all three hypotheses are rejected.

B) According to implemented calculations in Chapter Four (Shivakumar Method) there is no relationship between interest conservatism and the ratio of market value to clerical value. Also, in all tested portfolio and all periods there is no interest conservatism. Therefore, all three hypotheses are rejected.

As it can be seen, in both methods (Basu and Shivakumar), there is no relationship between interest conservatism and the ratio of market value to clerical value. Also, in all tested portfolio and all periods there is no interest conservatism. Therefore, all three hypotheses are rejected.

This study concluded that between interest conservatism and the ratio of market value to clerical value, there is no significant relationship. While in a similar study conducted by Jinhan and colleagues (2005) an inverse relationship between interest conservatism and the ratio of market value to clerical value is confirmed. It seems that this difference in results is due to government ownership of most companies listed in Tehran Stock Exchange.

9. Suggestions based on research results

According to the results of this study it can be concluded the there is no relationship between interest conservatism and the ratio of market value to clerical value. Also, there is no interest conservatism in all tested portfolio and periods. Therefore it is recommended, users of financial statements and analysts who are trying to predict future interests through the current profits, be aware of research results, because there may be this notion that companies accepted in the Tehran Stock Exchange which have lower ratio of market value to clerical value, as well as implemented foreign researches, would have more interest conservatism. While this study rejects this notion in regard to the companies listed in Tehran Stock Exchange.

10. Suggestions for future research

In regard to the present study, suggestions for future research are provided which as follows:

- 1- It is suggested to carry out researches on similar topic and with more time periods.
- 2- It is recommended to use different models to measure conservatism in future researches for decrease in measuring errors.
- 3- It is recommended to examine research hypotheses for the companies that have not been listed in Stock, or private Stock Companies.
- 4- It is recommended to carry out the research about various industries in regard to separate specific industry (of course this suggestion is also applicable in case of increase in the number of statistical samples and use classified sampling method)
- 5- It is recommended to examine research hypotheses about the relationship between work commitments conservatism and the ratio of market value to clerical value.
- 6- It is recommended to examine research hypotheses about the relationship between operational cash flow conservatism and the ratio of market value to clerical value.
- 7- To study the relationship of state or private ownership of companies with accounting conservatism.

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Author Introduction



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